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Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
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R 061210Z JUN 78
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TO SECSTATE WASHDC 6388
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS & FRB

EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK MAY 23-JUNE3

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL ABRUPTLY. GOLD PRICE ROSE. SNB PUBLISHED STUDY ON SF APPRECIATION. SNB INCREASED MARKET LIQUIDITY END MAY. SNB BALANCE SHEET TOTAL DECLINED SLIGHTLY IN MAY. GOVT FINANCIAL PACKAGE AND INVESTMENT PROPOSALS SUFFERED SETBACK. FOREIGN BANK 1977 ASSETS WERE 10
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PCT OF ALL BANKS IN SWITZERLAND. CREDIT SUISSE STRESSED MONETARY POLICY TO PROMOTE EMPLOYMENT. AMB HEIMO SPOKE ON NORTH-SOUTH DIALOGUE. ECONOMIC INDICATORS SHOW CONTINUED GROWTH. MONTREUX SYMPOSIUM ON ARAB-EUROPEAN ECONOMIC COOPERATION REPORTED SEPTEL. END SUMMARY.
2. FOREX GOLD: MARKETS WERE NERVOUS . DOLLAR RATE

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AGAINST SF FELL SUBSTANTIALLY IN LOW VOLUME. POSITIVE
INFLUENCE OF HIGHER US INTEREST RATES WAS OFFSET BY
FORECASTS OF HIGHER US INFLATION AND INCREASED US
CURRENT ACCOUNT DEFICIT. SNB MADE MODEST INTERVENTIONS.
DEALERS ATTRIBUTED GOLD PRICE RISE PARTLY TO RENEWED
DOLLAR WEAKNESS, COVERING OF POSITIONS IN US AND NEW
SPECULATIVE TREND AT TIME SUPPLY DECLINED. DEALERS
EXPECT PRICE DECLINE WITH NEXT IMF GOLD AUCTION. SNB
GEN MGR LANGUETIN SAID IT IS DIFFICULT TO SEE MONETARY
ROLE FOR GOLD WHEN IMF SEEKS DEMONETIZATION. HOWEVER,
DEMONETIZATION IS UNLIKELY UNTIL BETTER INTL SYSTEM
IS ESTABLISHED; GOLD WILL REMAIN PART OF MONETARY
RESERVES AND BE USED AS COLLATERAL FOR LOANS BY SOME
CENTRAL BANKS. RATES FOLLOW:
5/29 (OPEN) 6/2 (CLOSE)
SPOT DOLLAR 1.9420 1.8800
FORWARD DISCOUNTS
(PCT PER ANNUM)
1 MONTH 6.95 6.70
2 MONTHS 6.67 6.99
3 MONTHS 6.61 6.87
6 MONTHS 6.57 6.86
12 MONTHS 6.28 6.49
SF/DM 91.73 90.34
GOLD 180.25 184.75
3. SF APPRECIATION: SNB PUBLISHED STUDY ON SF
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APPRECIATION COMPARING TRADE-WEIGHTED NOMINAL EXCHANGE
RATE CHANGES WITH EXCHANGE RATE CHANGES IN REAL TERMS
AGAINST CURRENCIES OF WEST GERMANY, FRANCE, ITALY,
JAPAN, UK AND US, WHICH TOGETHER REPRESENT HALF OF
SWISS FOREIGN TRADE. THREE REAL RATES OF EXCHANGE
WERE DERIVED BY DEFLATING NOMINAL EXCHANGE RATE BY
COMPARATIVE SWISS AND FOREIGN INDICES OF CONSUMER
PRICES, INDUSTRIAL LABOR UNIT COST AND WHOLESALE
PRICES. SNB CONCLUDED SF APPRECIATION HAS NOT CAUSED
LARGE PRICE INCREASES FOR SWISS EXPORTS WHEN EXPRESSED
IN REAL TERMS. SAID DISPARITY BETWEEN NOMINAL AND
REAL EXCHANGE RATE ADJUSTMENTS BECAME MORE PRONOUNCED
AFTER 1973. NOTED SF USUALLY DEPRECIATES ON TRADE-
WEIGHTED BASIS DURING PERIODS OF FOREX CALM. FOLLOW-
ING TABLE SHOWS COMPARATIVE PERCENT CHANGES IN SF
APPRECIATION OVER THREE PERIODS IN NOMINAL AND REAL
TERMS:
APPRECIATED RATE: 1965-72 1973-74 1975-77
A. NOMINAL 10 30 44
B. REAL:
CPI RATE 11 24 15
UNIT LABOR COST RATE NEGL 19 -1.2

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WPI RATE 4 18 6
4. CAPITAL MONEY MARKETS:
A) STOCK PRI CES WERE STEADY; SKA SHARE INDEX REMAINED 244.4. BANKERS QUESTIONED EFFICACY OF RESTRI CTIONS ON CAPITAL INFLOWS IN VIEW OF RENEWED SF APPRECIATION WHILE STOCK MARKET REMAINS RELATIVELY INACTIVE. TERMS FOR BOND ISSUES TENDED TO SHORTEN TO 8 YEARS; INVESTORS ARE INCREASINGLY RELUCTANT TO INVEST FOR 15 YEARS AT LOW YIELDS.
B) THREE-MONTH EUROFRANC INTEREST RATE ROSE FROM 0.75 PCT END APR TO 1.5 END MAY AS SNB MOVED TO REDUCE GREATLY EXPANDED MONEY SUPPLY RESULTING FROM FOREX INTERVENTIONS. SOME ECONOMISTS BELIEVED SNB REACTED TOO QUICKLY TO DECREASE LIQUIDITY WHILE
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DOLLAR EXCHANGE RATE STABILIZED. MARKET LIQUIDITY ROSE AGAIN LAST WEEK MAY; SNB FOREX HOLDINGS ROSE SF 190 MILLION; DISCOUNTED PAPER WAS UP SF 1,196 MILLION; NOTES IN CIRCULATION ROSE SF 472 MILLION, WHILE GIRO ACCTS JUMPED SF 1,356 MILLION. AUTHORITIES DISCOUNTED POSSIBILITY UPWARD TREND INTEREST RATES OVER NEXT FEW MONTHS.

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AMEMBASSY PARIS
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5. SNB STATEMENT: END MAY SNB BALANCE SHEET TOTAL WAS 1.5 PCT ABOVE END APR BUT 16.5 PCT ABOVE END MAY 1977. FOREX HOLDINGS FELL 0.7 PCT IN MAY BUT WERE 55 PCT ABOVE END MAY 1977. NOTES IN CIRCULATION DECLINED 1.2 PCT IN MAY BUT WERE 3.2 PCT ABOVE END MAY 1977. GIRO ACCTS FELL 2.7 PCT IN MAY BUT WERE 16.8 PCT ABOVE END MAY 1977.

		CHANGE FROM APR 28
		(IN MILLIONS OF SF)
ASSETS		
GOLD	11,904	-- --
FOREX	19,053	DOWN 594
ROOSA BONDS	3,185	DOWN 175
DISCOUNTED PAPER	1,430	UP 1,195
LOMBARD LOANS	172	DOWN 46
OTHER	946	UP 169

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LIABILITIES		
NOTES IN CIRCULATION	19,575	DOWN 251
GIRO ACCTS	7,845	DOWN 214
SIGHT DEPOSITS	3,921	UP 1,126
STERILIZAORDERS	3,517	DOWN 235
OTHER (INCL GOVT ACCT)	1,832	UP 123
BALANCE SHEET TOTAL	36,690	UP 549

6. BUDGET POLICY: PARLIAMENTARY COMMITTEE POSTPONED FURTHER WORK ON GOVT FINANCIAL PACKAGE AND VALUE ADDED TAX (VAT). PRESS ATTRIBUTED POSTPONEMENT TO SOCIALIST PARTY UNWILLINGNESS TO SUPPORT VAT BEFORE 1979 ELECTIONS. REFERENDUM ON VAT MAY NOT BE HELD UNTIL 1980; FURTHER DELAY MIGHT CAUSE DEFICIT OF SF 3 BILLION IN 1981 FEDERAL BUDGET. GOVT MAY LOOK TO CUT FEDERAL TRANSFERS TO CANTONS AND MUNICIPALITIES, FEDERAL SUBSIDIES TO HEALTH INSURANCE, SOCIAL SECURITY, AND RAILROADS. SOCIALISTS PROPOSE GOVT TAX FOREIGN SF LOANS, TAX FOREX TRANSACTIONS AND BANKS' FIDUCIARY OPERATIONS. SEVERAL EDITORIALS SAID SOCIALIST PRO-POSALS DIRECTED T O BANKING ARE AIMED MORE AT 1979 ELECTIONS THAN GENUINE REFORM. MEANWHILE, SEVERAL CANTONS REPORTED SURPLUS REVENUE FOR 1977; ARE EXPECTED TO REDUCE TAXES SOME SF 800 TO SF 1,200 MILLION IN 1978.

7. INVESTMENT POLICY: PARLIAMENTARY COMMITTEE SUBSTANTIALLY WEAKENED PROPOSED GOVT FINANCIAL SUPPORT

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PROGRAM FOR SELF-HELP MEASURES IN ECONOMICALLY DEPRESSED
REGIONS, SUCH AS WATCH INDUSTRY CANTONS. COMMITTEE
ELIMINATED PROVISION TO SUBSIDIZE INTEREST PAYMENTS
BANK INVESTMENT LOANS FOR INNOVATION AND DIVERSIFICATION.
SAID PROVISION WAS CONTRARY TO FREE MARKET SYSTEM
AND WOULD BURDEN FEDERAL BUDGET WHEN FURTHER ECONOMIES
ARE CALLED FOR; GOVT LOAN GUARANTEE SHOULD MAKE INTEREST
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RATES LOWER. COMMITTEE ALSO REDUCED MAXIMUM PERIOD
GOVT CAN EXTEND GUARANTEE FROM 15 TO 10 YEARS; SUPPORT
REDUCED FROM 10 TO 5 YEARS FOR "ENDANGERED" REGIONS.
8. FOREIGN BANKS: ASSN OF FOREIGN BANKS IN SWITZER-
LAND REPORTED COMBINED 1977 ASSETS OF SF 36.7 BILLION
OR 10 PCT OF TOTAL SF 362 BILLION FOR ALL BANKS; SHARE
IS 14.8 PCT WHEN FIDUCIARY ACCTS ARE INCLUDED. FOREIGN
BANKS SAY HAVE BEEN AFFECTED BY REQUIREMENTS FOR
RECIPROCITY AND HIGH CAPITALIZATION, STRICTER SWISS
RULES ON INTL BANK ACTIVITIES AND DIFFICULTY FOR
FOREIGNERS TO OBTAIN WORK PERMITS. OUTLOOK FOR 1978
IS UNCERTAIN; MARGIN ON INTL LOAN OPERATIONS HAS
NARROWED BUT COMMISSION OPERATIONS HAVE RISEN. SF
APPRECIATION ADVERSELY AFFECTS FOREX EARNINGS.
FOREIGN BANKS ARE GENERATING MORE SWISS BUSINESS;
VOLUME ROSE FROM 25 PCT OF ASSETS IN 1972 TO 28
PCT IN 1977; SWISS SHARE OF FOREIGN BANK LIABILITIES
ROSE FROM 37.5 PCT IN 1972 TO 45 PCT IN 1977. GROSS
REVENUES ROSE 67 PCT IN LAST 5 YEARS. FOREIGN BANKS
DESIRE PLAY ROLE IN UNDERWRITING BOND ISSUES; OPPOSE
SOCIALIST PROPOSALS ON BANK SECRECY AND NEW TAXES ON
BANK OPERATIONS. FOREIGN BANKS EMPLOY 8,000 OR 11
PCT OF ALL BANK EMPLOYEES.
9. BANK VIEWS: CREDIT SUISSE GEN MGR TOLD EUROPEAN
CONFERENCE BOARD MOST EUROPEAN COUNTRIES TRY TO
CONTROL INFLATION AND PROMOTE EMPLOYMENT THROUGH
MONETARY POLICY. US CONTINUES TO BELIEVE MONETARY
CREATION ACCORDING TO INCOME POLICY COULD PROMOTE
GROWTH; RECENT BAD EXPERIENCE IN UK, FRANCE AND ITALY
HAS COOLED EUROPEAN INTEREST IN THAT APPROACH.
LOCOMOTIVE THEORY DOES NOT MEET WITH REALITY; IT
ONLY INCREASED INFLATION AND SOCIAL TENSION WITHOUT
IMPROVING EMPLOYMENT AND BALANCE OF PAYMENTS. MAJOR
EUROPEAN ECONOMIES HAVE IMPROVED AND BEGUN MODERATELY
ACCELERATED EXPANSION. HOWEVER, GENERAL EUROPEAN
RECOVERY FROM RECESSION IS NOT COMPLETE, THOUGH
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SLIGHTLY FASTER GROWTH IS EXPECTED IN LATE 1978 OR EARLY 1979. OVER-VALUATION OF MOST EUROPEAN CURRENCIES IS MAJOR FACTOR IMPEDING FOREIGN TRADE. MONETARY EXPANSION CAN HAVE LITTLE IMPACT WHEN PROSPECTS FOR INCREASED SALES ARE POOR. NEVERTHELESS, ADVANTAGES OF APPRECIATED CURRENCY AND LOW INFLATION OUTWEIGH THOSE OF DEVALUED CURRENCY WITH HIGHER INFLATION.

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AMEMBASSY ROME
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C O R R E C T E D C O P Y (LINE 1 & 2, PARA 10)

10. LDC'S: AMB MARCEL HEIMO, DIR OF SWISS FOREIGN TECHNICAL ASSISTANCE, SAID NORTH-SOUTH DIALOGUE IS STALLED BECAUSE OF DIVERSITY OF LDC DEVELOPMENT LEVELS, NEEDS AND POTENTIAL WHICH PRECLUDE UNIFIED POSITION WHEN ADDRESSING CONCRETE PROBLEMS. WORLD RECESSION AND MONETARY DISORDER HAS LED TO NEW PROTECTIONISM; RETURN TO REASONABLE LEVEL OF ECONOMIC GROWTH IS NE CESSARY FOR NEW ECONOMIC ORDER. FREE MARKET SYSTEM HAS NOT HELPED LDC'S; RAW MATERIAL PRICES FELL WHILE INDUSTRIAL PRICES ROSE. SWISS ARE ACTIVE IN NORTH-SOUTH DIALOGUE; ADOPTED GSP; PARTICIPATED IN COMMON

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FUND NEGOTIATIONS AND PROVIDED SPECIAL AID US $ 1
MILLION TO HELP LEAST DEVELOPED COUNTRIES' BALANCE OF
PAYMENTS PROBLEMS. BUT SWISS FOREIGN AID REMAINS
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LOWEST OF OECD WITH 0.19 PCT OF GNP THOUGH 25 PCT
OF EXPORTS GO TO LDC'S.
11. INDICATORS: NOMINAL RETAIL SALES ROSE ONLY 0.2
PCT IN APRIL ON YEARLY BASIS COMPARED TO 0.4 PCT IN
APR 1977 AND 1.5 PCT INT IN MAR.; MOST INCREASE WAS FOR
BUSINESS MACHINES, FOOTWEAR, CARS , HARDWARE AND TEXTILES
WHILE FOOD, BEVERAGES AND TOBACCO SALES DECLINED 3.5
PCT. OVERNIGHT HOTEL STAYS FELL 16 PCT IN APR COMPARED
APR 1977 DUE TO 23 PCT DECLINE IN FOREIGN VISITORS
AND 3 PCT LESS FEWER SWISS; HOWEVER, HOTEL STAYS IN
FIRST 4 MONTHS 1978 WERE UP 5 PCT COMPARED SAME PERIOD
1977.
LABOR STRIKES IN 1977 FELL TO 9 FROM 19 IN 1976,
EXCLUDING WORK STOPPAGES OF LESS THAN ONE WORK DAY
AND LABOR CONFLICTS INVOLVING INTL ORGANIZATIONS;
MOST DISPUTES OCCURRED IN FRENCH AND ITALIAN SPEAKING
AREAS, ONLY 2 IN GERMAN SPEAKING SWITZERLAND. WARNER

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